uMsinga Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	The provision of services to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
Mayoral committee	
Executive Mayor	Cllr BP Ngcobo
Deputy Mayor	Cllr SG Masimula
Speaker	Cllr TL Kunene
Councillors	Cllr K Sithole (Deceased)
	Cllr M.W Sokhela
	Cllr T Mntungwa
	Cllr J.V Langa
	Cllr T.M Ndlovu
	Cllr S.C Mpungose
	Cllr N.M Mabaso
	Cllr L.E Danisa
	Cllr B.P Madondo
	Cllr P Dladla
	Cllr M Sithole
	Dr. F.J Sikhakhane
	Cllr G.B Sikhakhane
	Cllr B Dumakude
	Cllr M.S Khoza
	Cllr X.S Xaba
	Cllr S Magubane
	Cllr A.S Shezi
	Cllr N.C Sikhosona
	Cllr B.L Ntuli
	Cllr Z.S Magwaza
	Cllr D.M Ndlovu
	Cllr S.R Sokhulu
	Cllr M.M.S Myeza
	Cllr B Mthethwa
	Cllr L.D Ngubane (Resigned)
	Cllr S.K Radebe
	Cllr N.P Xulu
	Cllr N Majozi
	Cllr S Ximba
	Cllr Z.E Shange
	Cllr T.M Mabaso
	Cllr M.E Ngobe
	Cllr M Buthelezi

General Information

Grading of local authority	2
Chief Finance Officer (CFO)	Nene TM
Accounting Officer	SL Sokhela
Business address	R 33 Main Road Tugela Ferry 3010
Postal address	Private Bag X530 Tugela Ferry 3010
Phone number	033 493 8000
Website	www.umsinga.gov.za
Bankers	ABSA
Auditors	Auditor - General South Africa Registered Auditors

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
SARS	South African Revenue Service
PAYE	Pay As You Earn

Approval of Annual Financial Statements

I am responsible for the presentation of the annual financial statements, which are set out on pages 6 to 54, in terms of Section 126(1) of the Municipal Finance Management Act (Act No. 56 of 2003) and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors; as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Standards of Generally Recognised Accounting Practice (GRAP) in a manner required by the local government: Municipal Finance Management Act, (Act No. 56 of 2003), including any interpretations, guidelines and directives issued by the Accounting Standards Board.

It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the statement of affairs of the municipality as at the end of the financial period and the results of its operations and cash flows for the period then ended.

SL Sokhela
Accounting Officer

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The gazette No.41335 of 15 December relating to the upper limits of the salaries, allowance and benefits of all municipal council members and directors was used to pay the salaries and allowances to councillors and directors in the current financial.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

SL Sokhela
Accounting Officer

Statement of Financial Position as at 30 June 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	6	697 943	540 633
VAT receivable	7	7 806 270	5 412 957
Consumer debtors	8	4 758 967	4 345 679
Cash and cash equivalents	9	55 400 256	30 158 156
		68 663 436	**40 457 425**
Non-Current Assets			
Property, plant and equipment	3	227 668 691	205 964 740
Intangible assets	4	1 100 577	187 041
		228 769 268	**206 151 781**
Total Assets		**297 432 704**	**246 609 206**
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	29 665 536	24 433 758
Unspent conditional grants and receipts	10	1 309 273	559 273
Provisions	11	941 843	497 931
		31 916 652	**25 490 962**
Non-Current Liabilities			
Employee benefit obligation	5	847 000	740 000
Provisions	11	4 577 750	4 657 178
		5 424 750	**5 397 178**
Total Liabilities		**37 341 402**	**30 888 140**
Net Assets		**260 091 302**	**215 721 066**
Reserves			
Revaluation reserve		4 759 713	4 759 713
Accumulated surplus		255 331 589	210 961 351
Total Net Assets		**260 091 302**	**215 721 066**

* See Note 32

Statement of Financial Performance

Figures in Rand	Notes	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	14	387 047	174 276
Rental of facilities and equipment	15	654 822	915 886
Other revenue	18	316 434	501 706
Interest received	19	5 606 565	5 609 406
Total revenue from exchange transactions		**6 964 868**	**7 201 274**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	16 814 334	18 476 181
Donations received	17	97 668	-
Transfer revenue			
Government grants & subsidies	21	221 089 000	190 976 333
Total revenue from non-exchange transactions		**238 001 002**	**209 452 514**
Total revenue	13	**244 965 870**	**216 653 788**
Expenditure			
Employee related costs	22	(71 383 614)	(56 870 338)
Remuneration of councillors	23	(13 120 629)	(12 019 163)
Depreciation and amortisation	24	(30 208 113)	(26 662 207)
Finance costs	25	(75 000)	(671 464)
Lease rentals on operating lease	16	(1 249 229)	(1 062 389)
Bad debts written off	8	(6 597 225)	(4 973 725)
Free basic services	26	(457 911)	(440 040)
Contracted services	27	(40 008 379)	(43 852 973)
General expenses	28	(38 927 848)	(38 287 451)
Total expenditure		**(202 027 948)**	**(184 839 750)**
Surplus before actuarial gains		**42 840 254**	**31 814 038**
Actuarial gains		115 000	24 000
Surplus for the year from continuing operations		**42 955 254**	**31 838 039**
Profit on disposal of assets		213 432	54 543
Surplus for the year		**43 168 686**	**31 892 583**

* See Note 32

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	390 000	179 008 770	179 398 770
Prior year adjustments	260 000	-	260 000
Balance at 01 July 2018 restated	**650 000**	**179 008 770**	**179 658 770**
Changes in net assets			
Surplus for the year as previously reported	-	31 952 581	31 952 581
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	3 849 713	-	3 849 713
Total changes	3 849 713	31 952 581	35 802 294
Opening balance	4 759 713	212 053 820	216 813 533
Adjustments			
Correction of errors	-	11 415	11 415
Balance at 30 June 2019	**4 759 713**	**212 065 235**	**216 824 948**
Changes in net assets			
Surplus for the year	-	43 266 354	43 266 354
Total changes	-	43 266 354	43 266 354
Balance at 30 June 2020	**4 759 713**	**255 331 589**	**260 091 302**

Notes

* See Note 32

Statement of Cash Flow

	Notes	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates and refuse removal		9 632 604	16 590 057
Government grants & subsidies		243 414 000	210 585 593
Interest income		5 606 565	5 609 406
Other Income		313 951	501 706
Rentals		469 658	915 886
VAT Received		13 874 409	3 901 164
Cash generated from operations		273 311 187	238 103 812
Payments			
Employee costs and Councillors		(79 331 726)	(68 805 501)
Cash paid to suppliers		(94 467 429)	(105 073 299)
INEP Payment		(21 575 000)	(23 139 724)
		(195 374 155)	(197 018 524)
Net cash flows from operating activities		**77 937 032**	**41 085 288**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(51 726 759)	(45 430 205)
Proceeds from sale of property, plant and equipment	3	316 825	124 300
Purchase of other intangible assets	4	(1 285 000)	-
Net cash flows from investing activities		**(52 694 934)**	**(45 305 905)**
Net increase / (decrease) in cash and cash equivalents		**25 242 100**	**(4 220 617)**
Cash and cash equivalents at the beginning of the year		30 158 156	34 378 773
Cash and cash equivalents at the end of the year	9	**55 400 256**	**30 158 156**

* See Note 32

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	500 000	(116 471)	**383 529**	387 047	**3 518**	
Rental of facilities and equipment	516 855	184 460	**701 315**	654 822	**(46 493)**	
Fines, penalties and forfeits	112 360	(112 360)	**-**	-	**-**	
Other income	588 766	129 000	**717 766**	316 434	**(401 332)**	41.1
Interest received - investment	5 396 640	700 360	**6 097 000**	5 606 565	**(490 435)**	41.2
Total revenue from exchange transactions	**7 114 621**	**784 989**	**7 899 610**	**6 964 868**	**(934 742)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19 364 981	(490 981)	**18 874 000**	16 814 334	**(2 059 666)**	41.3
Transfer revenue						
Government grants & subsidies	193 182 000	810 000	**193 992 000**	221 089 000	**27 097 000**	
Total revenue from non-exchange transactions	**212 546 981**	**319 019**	**212 866 000**	**237 903 334**	**25 037 334**	
Total revenue	**219 661 602**	**1 104 008**	**220 765 610**	**244 868 202**	**24 102 592**	
Expenditure						
Employee related costs	(61 768 597)	(10 150 403)	**(71 919 000)**	(71 383 614)	**535 386**	
Remuneration of councillors	(12 071 483)	(720 176)	**(12 791 659)**	(13 120 629)	**(328 970)**	
Depreciation and amortisation	(23 015 997)	-	**(23 015 997)**	(30 208 113)	**(7 192 116)**	41.4
Finance costs	(500 000)	-	**(500 000)**	(75 000)	**425 000**	41.5
Lease rentals on operating lease	-	-	**-**	(1 249 229)	**(1 249 229)**	41.6
Bad debts written off	(3 000 000)	-	**(3 000 000)**	(6 597 225)	**(3 597 225)**	41.7
Free basic services	-	-	**-**	(457 911)	**(457 911)**	41.8
Contracted Services	(57 149 276)	3 198 477	**(53 950 799)**	(40 008 379)	**13 942 420**	41.9
General Expenses	(43 007 380)	1 226 419	**(41 780 961)**	(38 927 848)	**2 853 113**	41.10
Other materials	(17 570 986)	4 708 803	**(12 862 183)**	-	**12 862 183**	41.11
Total expenditure	**(218 083 719)**	**(1 736 880)**	**(219 820 599)**	**(202 027 948)**	**17 792 651**	
Surplus for the year	**1 577 883**	**(632 872)**	**945 011**	**42 840 254**	**41 895 243**	
Actuarial gains	-	-	**-**	115 000	**115 000**	
Surplus for the year from continuing operations	**1 577 883**	**(632 872)**	**945 011**	**42 955 254**	**42 010 243**	
Profit on disposal of assets	-	-	**-**	213 432	**213 432**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**1 577 883**	**(632 872)**	**945 011**	**43 168 686**	**42 223 675**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003) with the exception of certain accounting policies adopted in accordance with International Accounting Standards (IAS).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

GRAP 1 Presentation of Financial Statement

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the Reporting Date

GRAP 16 Investment Property

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 21 Impairment of non-cash generating asset

GRAP 23 Revenue from Non-exchange transactions

GRAP 24 Presentation of budget information

GRAP 25 Employee Benefits

GRAP 26 Impairment of cash generating assets

GRAP 31 Intangible Assets

GRAP 100 Discontinued Operations

GRAP 104 Financial Instruments

GRAP 106 Transfer of Functions between Entities Not Under Common Control

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

Accounting Policies

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Debtors receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for the assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Impact of Covid- 19

Municipal management considered uncertainty on service delivery which have been caused by the outbreak of covid 19 pandemic. Several sections of the financial statements such as revenue, provision for bad debts calculations, receivables collection rate, expenses and going concern have been affected by the effect of the pandemic. Management also understand that if the number of affected people increased drastically soon, then the nation will be taken back to lock down which will affect service delivery of the municipality.

Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	10-30 years
Roads and pavings	Straight line	10-30 years
Air conditioners	Straight line	5 - 7 years
Furniture and fixtures	Straight line	3 -10 years
Vehicles and tractors	Straight line	3-10 years
Office equipment	Straight line	3-10 years
IT equipment	Straight line	3-5 years
Machinery and equipment	Straight line	3-10 years
Radio	Straight line	3-5 years
Electricity	Straight line	5-25 years
Pedestrian Malls	Straight line	10-30 years
Recreational facilities	Straight line	5-10 years
Sewerage	Straight line	20-30 years
Landfill site	Straight line	21 years

1.4 Property, plant and equipment (continued)

Tools and loose gear	Straight line	5 years
Water network	Straight line	20 years
Heritage Assets		Indefinite Useful Life

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when th we asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Accounting Policies

1.5 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Licenses	Straight line	1-5 years

1.6 Heritage assets

Heritage assets should initially be measured at cost or fair value. Where heritage assets are acquired for no cost or nominal cost, its cost should be measured at its fair value as at date of acquisition.

For subsequent measurement the entity has a choice between the cost model and the revaluation model. If the fair value of a class of heritage assets can be measured reliably all the assets in that class should be measured using the revaluation model. The only exception is if the fair value of a specific heritage asset in that class cannot be determined reliably, then GRAP 103 allows an entity to measure that asset under the cost model until such time as the fair value can again be reliably determined.

Heritage assets are not depreciated.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Accounting Policies

1.7 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Accounting Policies

1.7 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Investments

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Trade and other receivables

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Trade payable and borrowings

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Accounting Policies

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.9 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

1.11 Employee benefits

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Accounting Policies

1.11 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Accounting Policies

1.12 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, the municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Grants, transfers and donations

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.15 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

1.16 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Accounting Policies

1.16 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA as:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of this Act, and which has not been condoned in terms of section 170; of this Act; or
(b) in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); orany provincial legislation providing for procurement procedures in that provincial government.
(c) expenditure incurred by a municipality or municipal entity in contravention of, or that is notin accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Accounting Policies

1.19 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.20 Retirement benefits

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provisional basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. Specific actuarial information in respect of individual participating municipalities is unavailable due to centralised administration of these funds. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.21 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.
Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises of direct labour, material and overhead, if appropriate.

2 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either
the period of time over which an asset is expected to be used by the entity; or
the number of production or similar units expected to be obtained from the asset by the entity.

Notes to the Annual Financial Statements

Figures in Rand	2020	2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 19, Provision, Contingent Liability and Contingent Assets	01 April 2020	Unlikely there will be a material impact
• GRAP 20, Related Part Disclosure	01 April 2020	Unlikely there will be a material impact
• GRAP 20, Related Part Disclosure	01 April 2020	Unlikely there will be a material impact
• GRAP 109: Accounting by Principles and Agents	01 April 2020	Unlikely there will be a material impact

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36: Investment in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
• GRAP 38: Disclosure of Interests in the Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

3. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	23 719 577	(9 290 350)	14 429 227	21 493 609	(9 132 414)	12 361 195
Plant and machinery	1 534 759	(469 397)	1 065 362	1 036 604	(291 034)	745 570
Furniture and fixtures	3 863 159	(2 400 446)	1 462 713	3 125 442	(1 991 660)	1 133 782
Motor vehicles	29 552 594	(22 445 718)	7 106 876	29 968 812	(19 537 833)	10 430 979
Office equipment	4 882 865	(3 268 465)	1 614 400	3 425 467	(2 555 583)	869 884
Infrastructure	272 773 416	(118 876 259)	153 897 157	256 075 527	(97 166 062)	158 909 465
Community Assets	61 175 246	(13 598 454)	47 576 792	31 655 471	(12 263 113)	19 392 358
Refuse dump	5 478 549	(5 222 385)	256 164	5 557 976	(3 696 469)	1 861 507
Heritage Assets	260 000	-	260 000	260 000	-	260 000
Total	**403 240 165**	**(175 571 474)**	**227 668 691**	**352 598 908**	**(146 634 168)**	**205 964 740**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Landfill site Movement	Donation received	Depreciation	Total
Buildings	12 361 195	2 809 998	-	-	-	(741 966)	14 429 227
Plant and machinery	745 570	498 168	-	-	-	(178 376)	1 065 362
Furniture and fixtures	1 133 782	737 792	-	-	-	(408 861)	1 462 713
Motor vehicles	10 430 979	-	(101 386)	-	-	(3 222 717)	7 106 876
Office equipment	869 884	1 365 316	(2 008)	-	97 668	(716 460)	1 614 400
Infrastructure	158 909 465	16 698 042	-	-	-	(21 710 350)	153 897 157
Community Assets	19 392 358	29 519 775	-	-	-	(1 335 341)	47 576 792
Refuse dump	1 861 507	-	-	(79 426)	-	(1 525 917)	256 164
Heritage Assets	260 000	-	-	-	-	-	260 000
	205 964 740	**51 629 091**	**(103 394)**	**(79 426)**	**97 668**	**(29 839 988)**	**227 668 691**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Landfill site Movement	Revaluations	Newly Identified assets	Depreciation	Total
Buildings	13 067 069	-	-	-	-	-	(705 874)	12 361 195
Plant and machinery	181 199	224 501	-	-	-	453 333	(113 463)	745 570
Furniture and fixtures	855 665	20 800	(1 271)	-	-	702 159	(443 571)	1 133 782
Motor vehicles	10 179 180	3 478 316	(99 639)	-	-	-	(3 126 878)	10 430 979
Office equipment	650 839	410 034	(1 213)	-	-	142 824	(332 600)	869 884
Infrastructure	136 297 214	42 487 093	-	-	-	-	(19 874 842)	158 909 465
Community Assets	5 271 040	14 638 978	-	-	-	-	(517 660)	19 392 358
Refuse dump	290 000	-	-	2 951 413	-	-	(1 379 906)	1 861 507
Heritage Assets	-	-	-	-	260 000	-	-	260 000
	166 792 206	**61 259 722**	**(102 123)**	**2 951 413**	**260 000**	**1 298 316**	**(26 494 794)**	**205 964 740**

Pledged as security

During the financial year ended 30 June 2020 it was noted that the municipality did not have any assets pledged as security:

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	9 875 702	2 588 233	12 463 935
Additions	16 697 870	29 359 828	46 057 698
Transferred to completed items	(22 347 430)	(7 900 993)	(30 248 423)
	4 226 142	**24 047 068**	**28 273 210**

Notes to the Annual Financial Statements

	2020	2019

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	12 770 366	3 059 153	15 829 519
Additions	29 716 727	11 381 007	41 097 734
Transferred to completed items	(32 611 388)	(11 851 930)	(44 463 318)
	9 875 705	**2 588 230**	**12 463 935**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Motor Vehicles	277 998	999 781
Buildings	800 055	320 384
Infrastructure	7 959 983	14 430 820
Plant and Machinery	1 091 380	886 929
Community	1 310 400	1 304 931
Furniture and fittings	177 761	80 245
	11 617 577	**18 023 090**

Notes to the Annual Financial Statements

Figures in Rand

4. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets	2 555 966	(1 455 389)	1 100 577	1 270 966	(1 083 925)	187 041

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Intangible assets	187 041	1 285 000	(371 464)	1 100 577

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Intangible assets	354 576	(167 535)	187 041

	2020	2019

5. Employee benefit obligations

Defined benefit plan

Carrying value		
Opening Balance	740 000	747 000
Current service cost	108 000	100 000
Interest Cost	75 000	77 000
Benefit payment	(52 000)	(69 000)
Actuarial gain	(24 000)	(115 000)
	847 000	**740 000**

Net epenses recognised in the statement of financial performance		
Current service cost	108 000	100 000
Interest cost	75 000	77 000
Benefit payment	(52 000)	(69 000)
Actuarial gain	(24 000)	(115 000)
	107 000	**(7 000)**

Nature of Liability

The employer's long service bonus awards consist of an obligation to pay out a bonus in the year of the employee attaining the required service. This obligation represents a liability to the employer and the value is represented by the present value of the total long service bonus awards expected to become payable under the employer's current policy. uMsinga Local Municipality offers Bonuses for 10 years of completed service to 30 years.

Long service accumulated leave must be taken within one year of earning such leave or may be wholly or partially cashed. uMsinga Local Municipality advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus day into cash.

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long Service Award Liability

Long service benefits are awarded in the form of several leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing future salary growth.

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements, and withdrawals from service.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

	2020	2019

5. Employee benefit obligations (continued)

Valuation Assumption

In estimating the liability for long service leave benefits several assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variance	Assumed Value 30-06-2020 (Current Valuation)	Assumed Value 30-06-2019 (Current Valuation)
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based**	Yield Curve Based**

Discount Rate

We use the nominal and zero curve as at **30 June 2020** supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 year.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 1 July 2020 of **6.25%.** The next salary increase was assumed to take place on 01 July 2021.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables These are the most commonly used tables in the industry.

Notes to the Annual Financial Statements

	2020	2019

5. Employee benefit obligations (continued)

Sensitivity Analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

To illustrates the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following options:

- 20% increase/decrease in the assumed level of withdrawal rates.
- 1% increase/decrease in the normal salary cost inflation.

6. Receivables from exchange transactions

Accrued interest income	2 434	-
Building Deposit	300 000	300 000
Sundry Debtors (Rentals)	395 509	240 633
	697 943	**540 633**

7. VAT receivable

VAT	7 806 270	5 412 957

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT No.89 of 1991.

Notes to the Annual Financial Statements

	2020	2019
8. Receivables		
Gross balances		
Rates	42 396 783	36 700 203
Refuse	438 447	3 916 421
Other	81 765	68 868
	42 916 995	**40 685 492**
Less: Allowance for impairment		
Rates	(37 808 712)	(32 389 222)
Refuse	(276 351)	(3 888 764)
Other	(72 965)	(61 827)
	(38 158 028)	**(36 339 813)**
Net balance		
Rates	4 588 071	4 310 981
Refuse	162 096	27 657
Other	8 800	7 041
	4 758 967	**4 345 679**
Included in above is receivables from exchange transactions		
Refuse	162 096	27 657
Other	8 800	7 041
	170 896	**34 698**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	4 588 071	4 303 591
Net balance	**4 758 967**	**4 338 289**
Rates		
Current (0 -30 days)	947 826	1 227 275
31 - 60 days	929 459	1 068 347
61 - 90 days	913 684	1 005 566
91 - 120 days	901 864	1 002 404
121 - 365 days	38 703 950	36 374 510
	42 396 783	**40 678 102**
Refuse		
Current (0 -30 days)	33 340	7 052
31 - 60 days	33 340	6 874
61 - 90 days	31 806	6 874
91 - 120 days	31 806	6 856
121 - 365 days	308 157	59 039
	438 449	**86 695**

Notes to the Annual Financial Statements

	2020	2019
8. Receivables (continued)		
Other (specify)		
Current (0 -30 days)	1 760	1 760
31 - 60 days	1 760	1 760
61 - 90 days	1 760	1 760
91 - 120 days	1 760	1 760
121 - 365 days	74 725	57 518
	81 765	**64 558**
Summary of debtors by customer classification		
Households		
Current (0 -30 days)	45 251	231 457
31 - 60 days	45 251	230 698
61 - 90 days	45 251	230 698
91 - 120 days	45 251	230 667
121 - 365 days	9 578 377	8 338 863
	9 759 381	9 262 383
Less: Allowance for impairment	(9 533 218)	(8 338 863)
	226 163	**923 520**
Industrial/ commercial		
Current (0 -30 days)	506 551	373 128
31 - 60 days	506 551	337 093
61 - 90 days	496 517	301 380
91 - 120 days	493 963	301 380
121 - 365 days	13 507 507	5 849 313
	15 511 089	7 162 294
Less: Allowance for impairment	(13 014 524)	(5 849 313)
	2 496 565	**1 312 981**
National and provincial government		
Current (0 -30 days)	431 124	631 501
31 - 60 days	412 757	509 190
61 - 90 days	405 482	482 123
91 - 120 days	396 216	478 973
121 - 365 days	16 000 947	16 741 127
	17 646 526	18 842 914
Less: Allowance for impairment	(15 610 287)	(16 741 127)
	2 036 239	**2 101 787**
Total		
Current (0 -30 days)	982 925	1 874 977
31 - 60 days	964 559	1 076 981
61 - 90 days	947 250	1 014 201
91 - 120 days	935 430	1 011 020
121 - 365 days	39 086 831	30 929 303
	42 916 995	35 906 482
Less: Allowance for impairment	(38 158 028)	(31 560 803)
	4 758 967	**4 345 679**

Notes to the Annual Financial Statements

	2020	2019

8. Receivables (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year (Impairment)	(31 560 803)	(31 366 089)
Contributions to allowance (Impairment)	(6 597 225)	(194 714)
Bad Debt Written Off	-	(4 779 010)
	(38 158 028)	**(36 339 813)**

The creation and release of allowance for impaired receivables have been included in the operating expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of the recovering additional cash. Consumer debtors are impaired as a result of non collectability of the debtors due to the fact that people do not have title deeds and no basic services are offered including sewer system and refuse remove.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	55 400 256	30 158 156

The following bank accounts listed below were opened and closed during the year under audit:

Standard Bank - Investment Account - Account Number 3484660130-17
Standard Bank - Investment Account - Account Number 3484660130-18
Standard Bank - Investment Account - Account Number 3484660130-19
Standard Bank - Investment Account - Account Number 3484660130-20
Standard Bank - Investment Account - Account Number 3484660130-21
Standard Bank - Investment Account - Account Number 3484660130-22
Standard Bank - Investment Account - Account Number 3484660130-23
Standard Bank - Investment Account - Account Number 3484660130-24
Standard Bank - Investment Account - Account Number 3484660130-25
Standard Bank - Investment Account - Account Number 3484660130-26
Standard Bank - Investment Account - Account Number 3484660130-27
Standard Bank - Investment Account - Account Number 3484660130-28

	2020	2019

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Absa Bank Primary Acount - Greytown Branch Account Number 4053635886	7 614 781	(142 441)	492 312	3 619 394	(142 441)	492 312
FNB Bank - Investment Account - Account Number 74105142017	-	-	14 001 434	-	-	14 001 434
FNB Bank - Investment Account - Account Number 62499591777	1 339 458	1 055 586	316 680	1 339 458	1 055 586	316 680
FNB Bank - Investment Account - Account Number 62124265837	-	-	5 303	-	-	5 303
Absa Bank - Investment Account - Account Number 2064443721	-	899 936	7 946 940	-	899 936	7 946 940
Absa Bank - Investment Account - Account number 2076957671	-	673 370	8 000 000	-	673 370	8 000 000
Liberty Life - Investment Account - Account Number 60586132	-	-	1 460 274	-	-	1 460 274
Liberty Life - Investment Account - Account Number 60586157	-	-	359 305	-	-	359 305
Liberty Life - Investment Account - Account Number 60586164	-	-	359 305	-	-	359 305
Liberty Life - Investment Account - Account Number 60586171	-	-	359 305	-	-	359 305
Liberty Life - Investment Account - Account Number 60586189	-	-	359 305	-	-	359 305
Life Life - Investment Account - Account Number 60586196	-	-	359 305	-	-	359 305
Life Life - Investment Account - Account Number 60586206	-	-	359 305	-	-	359 305
FNB Bank - Investment Account - Account Number 62778819303	6 273 275	5 111 213	-	6 273 275	5 111 213	-
Standard Bank - Investment Account - Account Number 3484660130-12	-	152 448	-	-	152 448	-
Standard Bank - Investment Account - Account Number 3484660130-14	-	1 381 781	-	-	1 381 781	-
Standard Bank - Investment Account - Account Number 3484660130-15	-	10 550 826	-	-	10 550 826	-
Standard Bank - Investment Account - Account Number 3484660130-16	-	10 475 437	-	-	10 475 437	-
Standard Bank - Investment Account - Account Number 3484660130-29	1 481 802	-	-	1 481 802	-	-

Notes to the Annual Financial Statements

					2020	2019
9. Cash and cash equivalents (continued)						
Standard Bank - Investment Account - Account Number 3484660130-30	10 346 226	-	-	10 346 226	-	-
Standard Bank - Investment Account - Account Number 3484660130-31	11 211 256	-	-	11 211 256	-	-
FNB Bank - Investment Account - Account Number 74836198420	5 187 405	-	-	5 187 405	-	-
FNB Bank - Investment Account - Account Number 74820036652	15 968 742	-	-	15 968 742	-	-
Total	**59 422 945**	**30 158 156**	**34 378 773**	**55 427 558**	**30 158 156**	**34 378 773**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Construction of shelters grant	559 273	559 273
Spluma Grant	750 000	-
	1 309 273	**559 273**

11. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	4 657 177	-	(79 427)	4 577 750
Performance bonus provision	497 931	941 843	(497 931)	941 843
	5 155 108	**941 843**	**(577 358)**	**5 519 593**

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Landfill site rehabilitation	5 038 014	517 464	(898 300)	4 657 178
Performance bonus provision	615 976	390 321	(508 366)	497 931
	5 653 990	**907 785**	**(1 406 666)**	**5 155 109**

Non-current liabilities	4 577 750	4 657 177
Current liabilities	941 843	497 931
	5 519 593	**5 155 108**

The Provision for rehabilitation of land fill site relate to the legal obligation to rehabilitate the land used for waste disposal in accordance with the Natinal Environment Management Act No 107 of 1998 and Environment Conversation Act No 73 of 1989. It is calculated as present value of the expenditure expected to be incurred to settle the furture obligation during rehabilitation of the land.

Notes to the Annual Financial Statements

	2020	2019
12. Payables from exchange transactions		
Accrual Expenditure	2 758 152	96 221
Accrued leave pay	7 718 873	5 771 414
Employee Cost	9 768	8 887
KZN Department of Housing	5 934 932	6 683 657
Unallocated debit orders	27 817	-
Payments received in advanced	3 403 648	2 878 040
Retention & Surity	7 710 887	4 743 859
Salga Subscription	228 320	1 015 210
Trade payables	1 873 139	3 236 540
	29 665 536	**24 433 758**
13. Revenue		
Service charges	387 047	174 276
Rental of facilities and equipment	654 822	915 886
Other income	316 434	501 706
Interest received - investment	5 606 565	5 609 406
Property rates	16 814 334	18 476 181
Donation received	97 668	-
Government grants & subsidies	221 089 000	190 976 333
	244 965 870	**216 653 788**
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	387 047	174 276
Rental of facilities and equipment	654 822	915 886
Other income	316 434	501 706
Interest received - investment	5 606 565	5 609 406
	6 964 868	**7 201 274**
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	16 814 334	18 476 181
Donation received	97 668	-
Transfer revenue		
Government grants & subsidies	221 089 000	190 976 333
	238 001 002	**209 452 514**
14. Service charges		
Refuse Removal	387 047	174 276
15. Rental of facilities and equipment		
Premises		
Facilities and equipment	654 822	915 886

Rental income includes: Municipal property, community assets (halls), market stalls and ploughing assets. The lease terms range between 1 – 5 years.

Notes to the Annual Financial Statements

	2020	2019

16. Lease rentals on operating lease

Lease rentals on operating lease		
Contractual amounts	1 249 229	1 062 389

The Municipality entered into an operating lease agreement as from 20 October 2017 for a period of 3 years with Konica Minolta, leasing photocopier machines and a monthly rental expense is accounted for in the Statement of Financial Performance. The average lease term is 3 years with 0% escalation. The rental is fixed for the duration of the contract.

17. Donations Received

Office equipment	97 668	-

Donation income relates to seventeen (17) CPU's and twenty (20) monitors sponsored personal computers for uMsinga Local Municipality for the purpose of establishing community-based ICT resource centre from the National Application Centre.

18. Other revenue

Other income	316 434	501 706

Other income includes: Rates clearance income, library printing income and sales of tender documents.

19. Investment revenue

Interest revenue		
Interest Received	5 606 565	5 609 406

20. Property rates

Rates		
Residential	505 154	2 533 028
Commercial	5 814 129	5 529 696
State	10 336 757	11 824 656
Municipal	158 294	352 824
Less: Rebates	-	(1 764 023)
	16 814 334	**18 476 181**

Rates are levied on an annual basis over 12 monthly installments with the final date for payment being 30 June 2020, in terms of provision of the rates policy, which makes provisions for rebates.

Valuations		
Residential	18 027 000	25 296 000
Commercial	232 882 000	714 094 000
State	511 181 000	187 609 000
Municipal	56 916 000	17 154 000
Other	1 268 204 000	721 447 000
	2 087 210 000	**1 665 600 000**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

	2020	2019

21. Government grants and subsidies

Operating grants		
Equitable share	163 783 000	145 573 000
Finance Management Grant (FMG)	1 900 000	1 900 000
Extended Public Works Programme	3 905 000	4 394 000
Disaster Relief Covid-19	960 000	-
Library Grant	1 119 000	2 394 333
	171 667 000	**154 261 333**
Capital grants		
Municipal infrastructure grant	49 422 000	36 715 000
	221 089 000	**190 976 333**

Equitable Share

In terms of the Constitution of South Africa, this grant is used to subsidise provision for basic services and for the municipality's operations.

Municipal Infrasructure Grant (MIG)

Current-year receipts	49 422 000	36 715 000
Conditions met - transferred to revenue	(49 422 000)	(36 715 000)
	-	-

The grant is for the implementation of projects approved by MIG. No funds were withheld.

Finance Management Grant (FMG)

Current-year receipts	1 900 000	1 900 000
Conditions met - transferred to revenue	(1 900 000)	(1 900 000)
	-	-

This grant was used for implementation of MSCOA, physical verification of assets, Municipal Finance Management Programme, and payments of finance interns. No funds were withheld.

Sportsfields Grants

Current-year receipts	-	1 333 333
Conditions met - transferred to revenue	-	(1 333 333)
	-	-

Construction of Shelters Grant

Balance unspent at beginning of year	559 273	316 680
Current-year receipts	-	228 982
Conditions met - transferred to revenue	-	13 611
	559 273	**559 273**

There are ongoing engagements between the municipality and the Department of Human Settlement in relation to the existence of this liability.

	2020	2019

21. Government grants and subsidies (continued)

Spluma Grant

Current-year receipts	750 000	-
	750 000	**-**

The purpose of a Scheme is to regulate land use and to promote orderly development in accordance with the Municipality's integrated development plan.

Extended Public Works Programme

Current-year receipts	3 905 000	4 394 000
Conditions met - transferred to revenue	(3 905 000)	(4 394 000)
	-	-

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme. No funds were withheld.

Library Grant

Current-year receipts	1 119 000	1 061 000
Conditions met - transferred to revenue	(1 119 000)	(1 061 000)
	-	-

The Library grant is to ensure all library stuff are being paid, promote information literacy and maintaining and upgrading the library standard and all necessary requirements aligned with the daily operations. No funds were withheld.

Disaster Relief Covid-19

Current-year receipts	960 000	-
Conditions met - transferred to revenue	(960 000)	-
	-	-

This grant was used for the COVID19, for cleaning material and persona, protective clothing. No funds were withheld.

Integrated National Electrification Programme (COGTA)

Current-year receipts	1 575 000	-
Conditions met - transferred to revenue	(1 575 000)	-
	-	-

The municipality has entered an arrangement with ESKOM for construction of powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to ESKOM upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with ESKOM. The arrangement would improve the lives of the local communities. Thus, the grant is not recognised as revenue.

Notes to the Annual Financial Statements

	2020	2019

21. Government grants and subsidies (continued)

Integrated National Electrification Programme (INEP)

Current-year receipts	20 000 000	20 700 000
Conditions met - transferred to revenue	(20 000 000)	(20 700 000)
	-	-

The municipality has entered an arrangement with ESKOM for construction of powerlines for the areas within area of the municipality. The municipality is an agent to the transaction as all the powerlines are handed over back to ESKOM upon completion. Eskom would determine the specifications and approve the designs before construction. The project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider that is registered with ESKOM. The arrangement would improve the lives of the local communities. Thus, the grant is not recognised as revenue.

Notes to the Annual Financial Statements

	2020	2019
22. Employee related costs		
Basic	56 001 337	42 547 771
Bonus	2 305 966	2 126 978
Long-service awards	64 265	163 399
Medical aid - company contributions	1 233 949	1 147 032
Overtime payments	1 207 816	1 817 198
Performance bonus provision	171 760	77 768
Travel, motor car, accommodation and subsistence	2 150 341	4 501 992
UIF	347 808	334 366
	63 483 242	**52 716 504**
Remuneration of Municipal Manager		
Annual Remuneration	588 878	587 816
Acting Allowance	-	87 250
Car Allowance	506 826	280 356
Area Allowance	50 682	34 433
Performance Bonus	138 579	96 385
Contribution to UIF, Medical and Pension Funds	12 989	13 323
Other	382 158	114 000
	1 680 112	**1 213 563**
Remuneration of Chief Finance Officer		
Annual Remuneration	483 500	446 522
Car Allowance	416 131	288 389
Area Allowance	41 613	28 839
Contribution to UIF, Medical and Pension Funds	11 033	9 805
Other	260 732	100 222
Performance Bonus	113 781	-
	1 326 790	**873 777**
Remuneration of Director: Planning		
Annual Remuneration	483 500	72 520
Car Allowance	416 131	48 376
Area Allowance	41 613	4 838
Performance Bonus	18 963	-
Contributions to UIF, Medical and Pension Funds	9 644	1 662
Other	207 496	27 360
	1 177 347	**154 756**
Remuneration of Director: Community		
Annual Remuneration	483 500	427 394
Car Allowance	416 131	280 722
Area Allowance	41 613	27 998
Contributions to UIF, Medical and Pension Funds	104 299	9 046
Other	198 020	65 244
Performance Bonus	10 498	-
	1 254 061	**810 404**

Notes to the Annual Financial Statements

	2020	2019

22. Employee related costs (continued)

Remuneration of Director: Corporate and Human Resources

Annual Remuneration	483 500	474 293
Car Allowance	416 131	314 402
Area Allowance	41 613	30 487
Bonus	-	24 096
Contributions to UIF, Medical and Pension Funds	10 593	10 165
Other	230 626	66 625
Performance Bonus	113 781	-
	1 296 244	**920 068**

Remuneration of Director: Technical Services

Annual Remuneration	483 500	78 146
Car Allowance	416 131	78 146
Area Allowance	41 613	7 815
Contributions to UIF, Medical and Pension Funds	9 644	1 902
Other	195 987	15 257
Performance Bonuse	18 963	-
	1 165 838	**181 266**

23. Remuneration of Councillors

Executive Mayor	953 797	837 872
Deputy Executive Mayor	433 170	398 890
Speaker	740 876	632 275
Mayoral Committee Members	2 032 473	1 763 003
Councillors	8 960 313	8 387 123
	13 120 629	**12 019 163**

In-kind benefits

During the year under review the Executive Mayor and Speaker were on full-time, whilst the deputy mayor remained part-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor, makes use of the council owned vehicle. The Mayor has 4 contracted bodyguards, the Deputy Mayor has 3 contracted bodyguards whilst the Speaker has 3 bodyguards.

24. Depreciation and amortisation

Property, plant and equipment	29 836 649	26 494 671
Intangible assets	371 464	167 536
	30 208 113	**26 662 207**

25. Finance Cost

Other interest paid	75 000	671 464

Other interest paid relates to finance costs charged on provision for landfil site as follows 2020 R 0.00 (2019 R 594464,00) and provision for long service award as follows 2020 R 75 000, (2019 R 77 000,00).

Notes to the Annual Financial Statements

	2020	2019
26. Free basic services		
Electricity	457 911	440 040
27. Contracted services		
Consultant and Professional Services	12 056 534	7 365 630
Contractors	8 627 394	13 658 451
Information Technology Services	1 200 398	368 408
Outsourced Services	6 506 476	4 437 394
Repairs and Maintenance	11 617 577	18 023 090
	40 008 379	**43 852 973**
28. General expenses		
Admin fees	4 880 376	4 063 060
Auditors remuneration	1 327 642	2 217 065
Bank charges	282 363	199 077
Community assistance expenses	11 201 278	11 290 281
Computer expenses	1 266 222	-
Conference and seminars	-	69 319
Electricity	2 139 553	1 409 610
Entertainment	18 559	124 839
FMG expenses	573 241	1 451 807
Inhouse electrification project	1 533	-
Learnership and internship expenses	50 000	35 970
Licences	1 123 165	613 815
Management services	2 449 427	1 308 895
Motor vehicle expenses	-	222 401
Protective clothing	2 534 682	1 648 230
Seatinga allowance traditional leaders	-	10 172
Special projects	1 016 656	1 040 647
Subscriptions and membership fees	477 462	1 089 930
Subsistence and travel	5 231 177	6 755 872
Telephone and fax	1 070 012	1 596 046
Ward committees	3 284 500	3 140 415
	38 927 848	**38 287 451**
29. Auditors' remuneration		
Fees	1 327 642	2 217 065

Notes to the Annual Financial Statements

	2020	2019
30. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	10 114 485	18 332 849
Total capital commitments		
Already contracted for but not provided for	10 114 485	18 332 849
Authorised operational expenditure		
Already contracted for but not provided for		
• Expenditure 1	21 472 004	9 835 649
Total operational commitments		
Already contracted for but not provided for	21 472 004	9 835 649
Total commitments		
Total commitments		
Authorised capital expenditure	10 114 485	18 332 849
Authorised operational expenditure	21 472 004	9 835 649
	31 586 489	**28 168 498**

This committed expenditure relates to capital and operational expenses, which will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1 685 134	741 459
- in second to fifth year inclusive	-	1 685 134
	1 685 134	**2 426 593**

Notes to the Annual Financial Statements

	2020	2019

31. Related party

Relationships

Accounting Officer	Sokhela S.L
Executive Major	Cllr BP Ngcobo
Deputy Mayor	Cllr SG Masimula
Speaker	Cllr TL Kunene
Councillors	Cllr K Sithole (Deceased) Cllr M.W Sokhela Cllr Mntungwa Cllr JV Langa Cllr TM Ndlovu Cllr SC Mpungose Cllr NM Mabaso Cllr LE Danisa Cllr BP Madondo Cllr P Dladla Cllr Sithole Dr FJ Sikhakhane Cllr GB Sikhakhane Cllr B Dumskude Cllr MS Khoza Cllr XS Xaba Cllr S Magubane Cllr AS Shezi Cllr NC Sikhosana Cllr BL Ntuli Cllr ZS Magwaza Cllr DM Ndlovu Cllr SR Sokhulu Cllr MMS Myeza Cllr B Mthethwa Cllr LD Ngubane (Resigned) Cllr SK Radebe Cllr NP Xulu Cllr N Majozi Cllr S ximba Cllr ZE Shange Cllr TM Mabaso Cllr ME Ngobe Cllr M Buthelezi
Directors	Mr TM Nene Miss MS Xulu Mr MV Ntanzi Mr SZN Mguni Mrs BP Hlubi

Please note that all directors and councillor's remuneration have been disclosed above on note number 22 and 23.

Notes to the Annual Financial Statements

	2020	2019

32. Prior Period Error

The comparatives for 2018/2019 have been restated due to the following errors:

In the previous financial year an amount of R 17 459 258.00 relating to the capital work in progress was previously disclosed as infrastructure. This amount has since been reclassified as a stand-alone capital work in progress in the PPE disclosure note of the annual financial statements. The reclassification had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial year, it was noted that the depreciation expenditure, profit for the year and the carrying value of Motor Vehicles was overstated by an overall net effect amount of R 66 531.00 due to the incorrect recognition of the depreciation of disposed vehicles that were auctioned off during the previous year. The depreciation on the disposed vehicles were recorded for the full financial year and not only up to the date of disposal. This has been corrected during the current financial year.

In the previous financial year receipts from the sale of motor vehicle amounting to R 124 300.00 was incorrectly classified as sale of goods, the receipt has since been reclassified into the profit on sales of asset account in the current financial year.

In the previous financial year working in progress was overstated by R 4 995 323 as it included the following completed projects: Infrastructure R 3 888 383,00 and R Community 1 106 940,00. We have since reclassified the completed projects into their respective categories. The reclassification also affected depreciation and the additional depreciation was recalculated as follows community asset R 3 007,03 and infrastructure R 1 571,31.

In the previous financial year there was a miss classification between the Furniture & Fitting and Office Equipment costs of R 26 698,82 (were the Furniture and Fitting cost account was overstated by R 26 699.00 which belong to the Office Equipment cost account). This has since been reclassified in the previous financial and the depreciation was recalculated with a net effect of R 1 146,47.

In the financial year the municipality had incorrectly disclosed/classified all omitted assets (which amounted to R 1 298 316.00) as revaluations and this has since been updated accordingly into omissions.

In the previous financial year, the municipality had previously misclassified (understated the expenditure cost incurred) community assistance expenditure incurred as free basic services (thus overstating the free basic services expenditure incurred). The total value of the misclassification amounted to R 5 411 575.00. The error has since been rectified and the financial records were amended accordingly. The reclassification had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

In the previous financial year, the municipality had previously understated the following accounts: free basic service expenditure, accruals, and VAT. The value of the impact was Free basic services (R 83 670.00), Accruals (R 96 220.50) and VAT (R 12 550.50).

In the previous financial year, the municipality had previously misclassified the Mayor's chain (heritage asset) as furniture and fixture with the cost of R 76.96 and net carrying value of R 4.33. This has since been rectified and the asset was reclassified accordingly as a heritage asset. It was also noted that the asset was undervalued, and a revaluation was performed, which valued the asset at R 260 000.00. Both the reclassiction and the correction of error had no impact on the profit/loss previously recorded and is merely to correct the disclosure.

Notes to the Annual Financial Statements

	2020	2019

32. Prior Period Error (continued)

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Infrastructure	3	259 770 697	-	(13 570 875)	246 199 822
Capital work in progress	3	-	-	12 463 935	12 463 935
Cost (Motor vehicle)	3	30 729 841	(761 029)	-	29 968 812
Accumulated depreciation (Motor vehicle)	3	(20 232 332)	694 499	-	19 537 833
Furniture and Fixture	3	3 152 141	-	(26 776)	3 125 442
Office Equipment	3	3 398 769	-	-	3 425 468
Reveluations	3	4 249 729	-	1 298 316	2 951 413
Omissions	3	-	-	1 298 316	1 298 316
Community	3	27 960 301	-	1 106 940	29 067 241
Accruals		-	96 221	-	96 221
VAT		5 400 407	12 551	-	540 633
Heritage asset		-	260 000	-	260 000
		314 429 553	**302 242**	**2 569 856**	**348 935 136**

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Sale of asset		124 300	-	(124 300)	-
Profit on disposal of asset		-	-	124 300	124 300
Profit on disposal of asset		-	(69 757)	-	(69 757)
Depreciation	24	(26 492 173)	(2 498)	-	(26 494 671)
Free basic servces		5 547 657	83 670	(5 411 757)	440 040
Community assist expenses		5 878 524	-	5 411 757	11 290 281
Surplus for the year		**(14 941 692)**	**11 415**	**-**	**(14 709 807)**

33. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

	2020	2019

34. Going concern

On 11 March 2020, the World Health Organisation declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. This led the President of South Africa to impose a nation-wide lockdown which has caused the municipality to partly close their operations (The municipality was still partly operating during the lockdown as a result of the municipality being deemed an essential service provider by the South African Government. However, most of the staff were working remotely from home) for an extended period from 27 March 2020. While the disruption is currently expected to be temporary, there is uncertainty around the duration as well as the recovery timeline. Therefore, while the municipality expects this matter may negatively impact its business, cash flow, results of operations and financial position, the related financial impact cannot be reasonably estimated at this time. Notwithstanding the operational and financial effects of the nation-wide lockdown, the accounting officer and the municipal councillors believe that the municipality has adequate financial resources to continue in operation for the foreseeable future and accordingly the financial statements have been prepared on a going concern basis. Management considers key financial metrics and approved medium-term budget, together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statement, is appropriate. The accounting officer and the municipal councillors are not aware of any new material changes that may adversely impact the municipality. The accounting officer and the municipal councillors are also not aware of any material non-compliance with statutory or regulatory requirements or any pending changes to legislation which may affect the municipality.

35. Events after the reporting date

The municipality is not aware of any other material events which occurred after the reporting date and up to the date of this report, that requires disclosure in these financial statements.

36. Contingent Liabilities

For the year ended 2018/19 Steyns chartered accountants incorporated (Steyns chartered accountants incorporated is a former Internal Auditor suing the Municipality for breach of contract. He claims that the municipality breached an agreement by deciding to terminate his contract and he is suing for the outstanding amount which was left in the contract (The cancellation is a result of an audit query raised by the Auditor-General.) has filed a claim of R 211,140 which attracts interest at 10,25 % per annum, calculated from 31 March 2018 till the date of final payment, for unfair dismissal. Further, he seeks recoupment of the cost of the lawsuit and attorney fees, the amount of which is unknown at it is dependent on the length of the lawsuit.The municipality is represented by Shepstone & Wylie Incorporated.
Current Status: Pre-Trial stages, which includes drafting of the discovery affidavit and the exchange thereof thereafter we will apply for trial dates.
The expenditure so far equals to R92 912.53.

The plaintiff Mr Hlela, was traveling from Greytown via R33 when a pothole caused a damage to his vehicle. He alleges that the damage he suffered is a result of the municipality's failure to repair the road. Therefore, he is suing municipality for all the costs he incurred repairing his vehicle. He has filed a claim of R 8 860.90 which attracts interest at 15,5 % per annum, calculated from the date of judgement to the date of payment. The municipality defended the matter by drafting a plea informing him of 'Mis joinder' advising him that he should be suing the department of transport instead. The municipality is represented by Shepstone & Wylie Incorporated.
Current Status: The matter has been filed in uMsinga Magistrate Court.
The expenditure so far equals to R11 716.20.

Th former Chief Financial Officer of the municipality, is suing for breach of contract. He disputes that the Municipality did not act according to the law when they cancelled his contract. There has since been a pre-arbitration meeting with the representatives of Prestprops, where the following was confirmed: The appointment of Adv WAJ Nicholson as the arbitrator and Dates for the filing of pleadings (2 December 2019). Prestprops filed their statement of claim and the municipality also instructed Advocate Broster S.C. to draft answering statements on their behalf.The municipality is represented by Garlicke and Bousfield Incorporated.
Current Status: waiting for Prestprops representatives to take next step.

Notes to the Annual Financial Statements

	2020	2019
37. Fruitless and wasteful expenditure		
Opening balance as previously reported	5 881	15 700
Opening balance as restated	**5 881**	**15 700**
Add: Expenditure identified - current	132 899	5 881
Less: Amount written off - current	(132 899)	-
Less: Amount written off by council - prior period	(5 881)	(15 700)
Closing balance	**-**	**5 881**
38. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government(SALGA)		
Current year subscription / fee	228 320	1 015 210
Audit fees		
Current year subscription / fee	1 327 642	2 773 161
PAYE and UIF		
Opening balance	11 276 384	8 412 950
Amount paid - current year	(11 276 384)	(8 412 950)
	-	-
Pension and Medical Aid Deductions		
Opening balance	12 993 004	10 863 403
Amount paid - current year	(12 983 236)	(10 854 516)
	9 768	**8 887**

The balance of R 9768.00 for 2020 and (R 8887.00 2019) relates to an outstanding balance for the Discovery Health which is a debit order and it only debits on the 2nd or 3rd of the following month.

VAT

VAT receivable	7 806 270	5 412 957

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

For the financial period ended 30 June 2020, there were no rates or services arrears owed by any councillor. Further, during the financial year there are no councillors which were outstanding for more than 90 days.

Notes to the Annual Financial Statements

	2020	2019
39. Deviations from the supply chain management regulations		
Diviation - current period	983 850	802 356
Amount approved by council	(983 850)	(802 356)
Nature of deviation		
Sole Supplier	855 143	-
Emergency	96 708	85 180
Other	-	717 176
	951 851	**802 356**

40. Contingent asset

During the year of 2017/2018 an amount of R 1 250 000 was paid to Khansela CC and an amount of R 300 000 was paid to Aphile CC. These payments were made to the suppliers without any order, invoice or goods delivery note. To determine their authenticity they were referred to the Internal Audit unit for investigation.Subsequently during the year of 2018/2019 the Municipality has since appointed an investigating company by the name of Nexia SAB&Tto investigate the matter.The municipality believes that there is a high likelihood that these amounts (totaling R 1 550 000) will be reimbursed to the municipality.

During the previous financial year, the Municipality made an erroneous payment to Mpandla Trading of R1,295,2573.23 and has failed to recover the money over the past period. The Municipality as such, has since taken legal action in an attempt to recover the money. If successful, the amount shall be paid back to the Municipality in the possible near future.

41. Reasons for material differences

41.1 Other income

Based on the nature of the income (rate clearance certificates; printing of building plans; town planning and printings from the library etc.), it is dependent on the demand and availability of the service. During the financial year there was a break-in at the library that forced it to closure and the influence of the pandemic lockdown which affected its revenue. Due to the pandemic lockdown the municipality took a knock on the closure of the services being provided e.g. tender documents sales; rate clearance certificated; town planning applications etc.

41.2 Interest received - investment

Interest on investments is based on the fluctuation of the interest rates / economic stability. COVID 19 pandemic lockdown forced the municipality to utilise and have access to cash which resulted in the municipality to invest less therefore less interest income on investments then expected.

41.3 Property rates

The difference is due to the budget not factoring in the data cleansing exercise that was performed towards the end of previous financial year that resulted in a write off on debtors (Unknown account holders and duplicated accounts and municipal properties).

41.4 Depreciation

Difference is due to the additions and/or acquisitions that were made during the financial year and was not anticipated by the municipality during the budget preparation.

41.5 Finance Cost

The variance is fair.

41.6 Lease rentals on operating lease

Notes to the Annual Financial Statements

	2020	2019

The municipality did not budget for the lease expenditure payment, this was due to an error in the budgeting.

41.7 Bad debts written off

The actual debt impairment is more than the budget due to the unpaid accounts that were identified during the impairment exercise that can only be done at the end of the financial year.

41.8 Free basic services

The municipality did not budget for the free basic services expenditure, this was due to an error in the budgeting.

41.9 Contracted services

The municipality had under budgeted for contracted services, due to the majority of the contracted service cost being ad hoc services.

41.10 General expenses

The municipal budget was not achievable due to the error which took place during the budgeting process. Where some of the expenditure line items that were suppose to be budgeted for separately were budgeted under general expenditure.

41.11 Other materials

The municipal budget was not achievable due to the error which took place during the budgeting process. Where some of the expenditure line items that were suppose to be budgeted for separately were budgeted under general expenditure.